

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

EAST KENTUCKY POWER COOPERATIVE'S)	
REQUEST FOR A DECLARATORY RULING ON)	
THE APPLICATION OF ADMINISTRATIVE)	CASE NO. 2004-00430
REGULATION 807 KAR 5:056 TO ITS PROPOSED)	
TREATMENT OF NON-ECONOMY ENERGY)	
PURCHASES)	

ORDER

East Kentucky Power Cooperative ("EKPC") has requested an interpretation of whether Administrative Regulation 807 KAR 5:056 permits EKPC to voluntarily absorb costs of non-economy purchases of electric energy in those hours when all available EKPC installed generation capacity is fully committed to meeting native load requirements and not pass such costs through its Fuel Adjustment Clause ("FAC").¹

Having reviewed EKPC's request for an interpretation and being otherwise sufficiently advised, the Commission finds that the request should be docketed as a petition for a declaratory ruling. We further find that the Attorney General and Gallatin Steel, intervening parties in recent Commission reviews of the operation of EKPC's FAC, should be made parties to this proceeding and be permitted the opportunity to submit comments or argument on the proposed action or to request a conference in this proceeding.

¹ A copy of this request is appended to this Order.

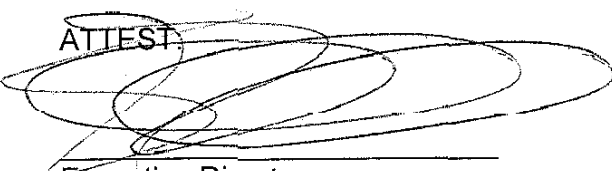
IT IS THEREFORE ORDERED that:

1. This proceeding is established to address EKPC's petition for a declaratory ruling on the application of Administrative Regulation 807 KAR 5:056 to its proposed action.
2. The Attorney General and Gallatin Steel are made parties to this proceeding.
3. Any party to this proceeding wishing to file comments or arguments regarding EKPC's proposed action and the treatment that Administrative Regulation 807 KAR 5:056 requires shall file such comments no later than 10 days from the date of this Order.

Done at Frankfort, Kentucky, this 9th day of November, 2004.

By the Commission

ATTEST


Executive Director

Case No. 2004-00430

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2004-00430 DATED NOVEMBER 9, 2004.



EAST KENTUCKY POWER COOPERATIVE

RECEIVED

OCT 05 2004

PUBLIC SERVICE
COMMISSION

October 4, 2004

Ms. Elizabeth O'Donnell
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, KY 40602

Dear Ms. O'Donnell:

An internal task force of East Kentucky Power Cooperative, Inc., ("EKPC") member system managers, who are signatories to this letter, has been reviewing the treatment of certain EKPC power purchases under the Fuel Adjustment Clause ("FAC"). EKPC is considering voluntarily agreeing to absorb costs of non-economy purchases of electric energy in those hours when all available EKPC installed generation capacity is fully committed to meeting native load requirements. By this letter, EKPC is requesting a staff review of this proposal.

EKPC currently passes non-economy purchases of power through the FAC pursuant to the provisions of the Commission's order dated May 2, 2002 in PSC Case No. 2000-00496-B. Under the terms of that order, actual energy costs for non-economy purchases which exceed the fuel cost of EKPC's highest cost generating unit available for dispatch to serve native load during the reporting expense month may not be passed through the FAC. EKPC does not propose to change the interpretation of the FAC requirements, but would simply report a \$0.00 cost for non-economy purchases made in those hours when all available EKPC generating capacity is serving native load.

EKPC is willing to comply with any documentation procedures that the Commission may require in regard to its reporting of such non-economy purchases, and believes that this process can be accomplished easily and with minimal disruption to normal FAC reporting. We do not believe that this approach is in conflict with any requirements of the FAC regulations. It is a voluntary decision on the part of EKPC not to recover such costs through the FAC, but to absorb those costs instead. With new generating capacity coming on the EKPC system in the near future, it is not anticipated that absorbing these costs will be a significant burden for EKPC. Recovery of such costs in the future, as necessary, would be subject to Commission review in a base rate case proceeding.

EKPC is requesting a staff interpretation that this proposed FAC reporting procedure is acceptable, and an indication of any additional reporting requirements or other steps that the Commission may require in connection with such a change. EKPC would encourage

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A Touchstone Energy Cooperative

Ms. Elizabeth O'Donnell

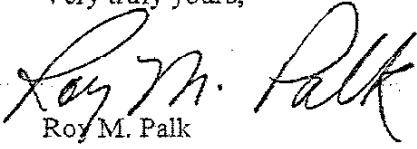
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the scheduling of an informal conference with the staff and any interested parties, if that would be helpful in clarifying any issues in regard to this request. EKPC would propose to implement this change on November 1, 2004.

If you have any questions about our request, or wish to schedule an informal conference on this matter, please contact me at EKPC headquarters.

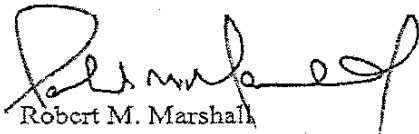
Very truly yours,



Roy M. Palk
President and Chief Executive Officer
East Kentucky Power Cooperative, Inc.



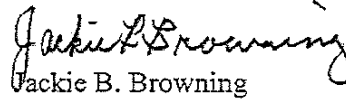
J. Larry Hicks
President and Chief Executive Officer
Salt River ECC



Robert M. Marshall
President and Chief Executive Officer
Owen EC



Donald R. Schaefer
President and Chief Executive Officer
Jackson EC



Jackie B. Browning
President and Chief Executive
Officer
Farmers RECC



Allen Anderson
Head Coach and Chief Executive
Officer
South Kentucky RECC

Cc: Elizabeth E. Blackford, Esq.
Michael L. Kurtz, Esq.



EAST KENTUCKY POWER COOPERATIVE

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